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RUEHAK/AMEMBASSY ANKARA 5891

RUEHBJ/AMEMBASSY BEIJING 3594

RUEHKO/AMEMBASSY TOKYO 3453

RUEHIT/AMCONSUL ISTANBUL 4133

RHEHNSC/NSC WASHDC

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RUEHVEN/USMISSION USOSCE 4087

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RUCPDOC/DEPT OF COMMERCE WASHDC

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C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 001481

SIPDIS

STATE FOR SCA/CEN; EEB;  
ENERGY FOR EKIMOFF/BURPOE/COHEN  
COMMERCE FOR EHOUSE

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SUBJECT: DEPUTY CHAIRMAN CONFIDENT ABOUT PROSPECTS IN  
TURKMENISTAN'S ENERGY SECTOR

Classified By: Charge d'Affaires Sylvia Reed Curran. Reasons 1.4 (B) and (D).

¶1. (C) SUMMARY: Deputy Chairman for Oil and Gas Baymyrat Hojamuhamedov, in a meeting with Deputy Assistant Secretary of State George Krol, reiterated the Turkmen government's energy sector policies of diversifying sales of natural gas, hiring service companies to work on development and exploration of new fields, and barring production sharing agreements onshore. He was well-versed in the details of Turkmenistan's current agreements, and he alluded to increasing demand in China and India as benefiting Turkmenistan. However, he was wary of new technology, saying that the Turkmen government wanted to be sure they would profit before trying anything new. He may be overly optimistic about the continuing interest of international oil companies, if Turkmenistan abides by its current policies of limiting their opportunities for meaningful involvement in onshore production. END SUMMARY.

¶2. (C) DAS Krol, during his trip to Ashgabat for the annual Turkmenistan International Oil and Gas Exhibition (TIOGE), met with Baymyrat Hojamuhamedov, Deputy Chairman of the Cabinet of Ministers for Oil and Gas on November 16. The recently appointed Minister of Oil and Gas Industry and Mineral Resources, Oraznur Nurmyradov, also attended the meeting, but Hojamuhamedov did not introduce him or ask him to speak. Ambassador Krol, after introducing his delegation and commenting that TIOGE symbolized the interest of the rest of the world in investing in Turkmenistan, asked Hojamuhamedov how he assessed the current market for natural gas.

PRESIDENTIAL POLICY OF DIVERSIFICATION

¶3. (C) Hojamuhamedov prefaced his remarks by saying that Turkmenistan was surrounded by countries rich in energy resources, but that President Berdimuhamedov had given the

government the task of ensuring that Turkmenistan was not dependent on any one market. Hojamuhamedov noted that a pipeline to China would open in December. He also said that by December Turkmenistan would be exporting 12 bcm to Iran. He added that all issues with Gazprom had been settled. Turkmenistan was not dependent on any one country, and consequently they were able to tell Gazprom that they would sell them gas, whether it be 5 bcm or 30 bcm, but only under certain conditions. (COMMENT: Embassy officers understood "certain conditions" to mean at a certain price or with the stipulation that Turkmen gas not be resold. END COMMENT) Hojamuhamedov commented that "of course Gazprom was interested," and that he was sure gas would be flowing north in the near future.

¶4. (C) The Deputy Chairman told the delegation that Turkmenistan currently has contracts signed for the sale of 54 bcm of gas, and that once the new pipeline to Iran is complete, they will be selling an additional 6 bcm. He added that Turkmenistan is ready to sell gas in "all directions," and mentioned South Stream, the Turkmenistan - Afghanistan - Pakistan - India (TAPI) pipeline, and Nabucco as possible outlets for Turkmen gas. He did note that Afghan security would prevent TAPI from becoming a reality anytime soon, and that the Nabucco Consortium needed to find a workable approach to the Turkmenistan-Azerbaijan border dispute. Hojamuhamedov added that the results of the tender for the East-West pipeline would be announced by the end of November, but Turkmenistan wanted to know where the gas would be going -- Nabucco or the Caspian Littoral pipeline -- before construction commenced. He emphasized that Turkmenistan was

ASHGABAT 00001481 002 OF 003

ready to sell gas to any buyer, but they did not want to be involved in anyone else's internal problems, including the Nabucco Consortium's, and so they were standing by their policy of only selling gas at the border.

#### NEW TECHNOLOGY AND AREAS OF EXPLORATION

¶5. (C) Hojamuhamedov then raised the possibilities for future gas sales. He stated that Chinese demand was around 100 bcm per year and Indian demand about 120 bcm per year. He talked about the South Yolotan field, which he said many international companies, including Chevron, BP, Shell, ConocoPhillips, and Marathon, were interested in developing. Hojamuhamedov drew a map for the delegation of the wells that had been drilled for the Gaffney, Cline and Associates assessment at the new field at South Yolotan, the older field at Yolotan, and another long, but narrow field near Mary. He noted that the Gaffney, Cline report gave a range of the reserves at South Yolotan, from a minimum of 4 tcm to a maximum of 14 tcm. Hojamuhamedov went on a mini-tirade about the Russian "yellow press," and their attempts to discredit the Gaffney, Cline study. He added that Mr. Gaffney attended the Investment Forum in Ashgabat in October and responded "very well" to the accusations. Then he told the delegation that the Russian media reports do not bother the Turkmen government because the government signed confidentiality agreements with the companies doing assessments of Turkmenistan's gas reserves, and those companies would not have sold the information, as the Russian press is claiming.

¶6. (C) Hojamuhamedov reiterated a message that the Turkmen government has told Western oil companies before: the Turkmen government is only interested in using service companies to develop its onshore gas fields. He said that he realized that subsalt reserves, including South Yolotan, posed technical difficulties, but that service companies could explore and develop the fields, even if they did not have skill levels quite as high as those of the major international oil companies. The Deputy Chairman stated categorically that Turkmenistan was not interested in production sharing agreements (PSAs) onshore. When asked about Turkmenistan's interest in gas-to-liquid or gas-to-fuel

technology, Hojamuhamedov responded that his government has talked with Marathon and Honeywell, but that these technologies are not fully developed and are very expensive, so Turkmenistan needs to analyze how beneficial they would be. He mentioned that he knew that Shell was working on the first liquefied natural gas (LNG) factory in Qatar, and had run into trouble and brought Honeywell in to complete the project. He also noted that the only outlet for LNG was via the Volga Don river, which could not be used in the winter. He added that the Turkmen government might consider compressed natural gas (CNG), but that would depend on Nabucco. (NOTE: Hojamuhamedov did not explain why a decision on CNG would depend on Nabucco. END NOTE.)

#### FINANCING AND TRAINING

¶ 17. (C) Hojamuhamedov explained that the preference for service companies and the unwillingness to award PSAs were economic issues. He said that natural resources belong to the Turkmen people. He added that Turkmenistan needed to diversify its economy and mentioned that in the 2010 state budget that was passed on November 13, only 35-36 percent of the revenue came from oil and gas sales. The rest would come from construction, cotton, textiles, and agricultural products. In addition, the Deputy Chairman discussed the Chinese loan for development at South Yolotan, of which

ASHGABAT 00001481 003 OF 003

Turkmenistan has already received \$4 billion. The next installment will bring the loan to a total of \$9 billion. Hojamuhamedov said his government should be able repay the loan in five years, with the development of the gas fields.

¶ 18. (C) In responding to a question about the level of expertise among oil and gas workers in Turkmenistan, Hojamuhamedov said there were regional training centers that were the responsibility of the ministries and agencies. In addition, Turkmenistan is working with the Gubkin Institute of Oil and Gas in Moscow to prepare programs for training instructors and for setting up training rooms. The Gubkin Institute opened a branch in Turkmenistan. In addition, the Turkmen government has contracted with the Kalinin Chemical and Technical Institute in Minsk to send 120 Turkmen students there for training, once the institute is completed.

#### OTHER PETROLEUM-BASED PRODUCTS

¶ 19. (C) The Turkmen government is working with foreign companies, including German, South Korean, Japanese, and American, to sell more oil-based products, such as detergents, shampoos, and other cleaning products, according to Hojamuhamedov. The goal is to have 90 percent of the raw materials for these products originated in Turkmenistan. The Deputy Chairman said that Turkmenistan's weakness was in marketing. They have looked at neighboring states' marketing strategies, and have hired foreign companies to help them determine which products to produce.

¶ 10. (C) COMMENT: Hojamuhamedov was very knowledgeable about the details of Turkmenistan's gas production and reserves, and seemed to enjoy talking to an audience that was well-informed. He was soft-spoken for most of the conversation, except when he started talking about the accusations against the Gaffney, Cline assessment, at which point he became obviously energized. Minister Nurmyradov, who not unusually for a minister when a deputy chairman is present, said nothing during the meeting, but nevertheless appeared well-versed in the details. At one point Hojamuhamedov looked over to him, as if to confirm that he had correctly cited some numbers. The Deputy Chairman maintained the standard Turkmen government positions about no PSAs for foreign companies onshore, only service contracts, and the importance of diversifying sales. However, he was willing to admit that it would be easier for Turkmenistan to continue selling gas to Russia, since the pipelines were already in place. He persisted with an assumption that

international oil companies will continue to approach Turkmenistan and be willing to work according to the conditions that the Turkmen government sets. END COMMENT.

¶11. (U) DAS Krol cleared this cable.  
CURRAN